

Generating Higher Value at IBM

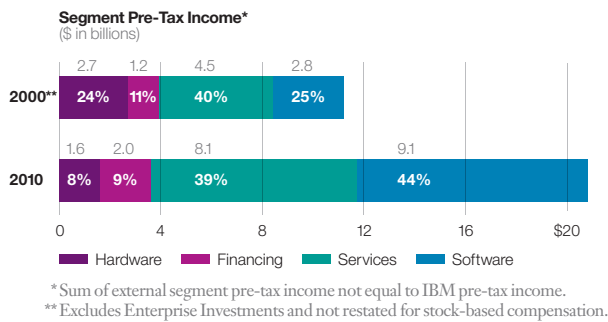
Over the past decade, IBM has built a record of leadership by pursuing the most transformational opportunities, inventing the breakthrough technologies to capture them and building an organization able to deliver superior results over the long term. This wasn't new. It's what we have been doing for 100 years.



As the new century dawned, we saw change coming. The IT industry and the broader economy were being transformed by the rising tide of global integration, by a new computing model and by new client needs for integration and innovation.

And that meant we needed to transform ourselves.

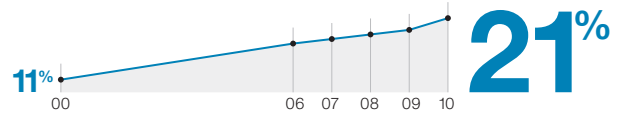
1. We changed our business mix toward higher-value, more profitable technologies and market opportunities.



2. We became a globally integrated enterprise, improving productivity and capturing new growth.

Since 2005, global integration has enabled IBM to gain \$6 billion in productivity savings while improving service quality. We have shifted resources toward building client relationships and employee skills, while positioning IBM for new market opportunities, such as business analytics, Smarter Cities and infrastructure build-outs underway in emerging markets.

Growth Markets Share of Geographic Revenue
(excluding divested businesses of PCs and printers)



3. By aligning our business model with our clients' needs we generated superior financial results.

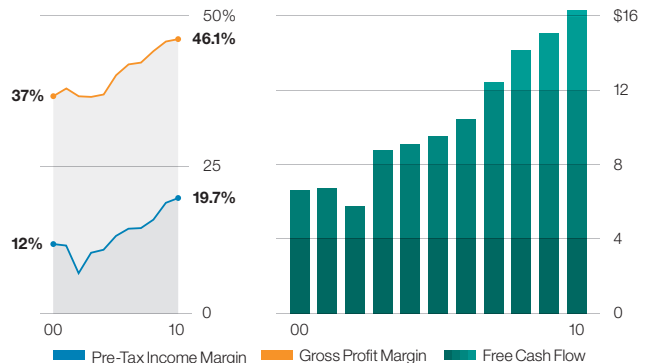
We achieved record earnings per share.

Diluted earnings per share in 2010 were \$11.52, having nearly tripled since the end of 2000, and marking eight consecutive years of double-digit growth. Our focus on productivity and a continuing shift in our business mix to more profitable segments has helped drive our performance.

And record cash performance.

In 2010 our free cash flow, excluding the year-to-year change in Global Financing receivables, was \$16.3 billion—an increase of \$1.2 billion from 2009. Since the end of 2000 we have generated \$109 billion in free cash flow.

Financial Performance History
(% of total revenue, \$ in billions)



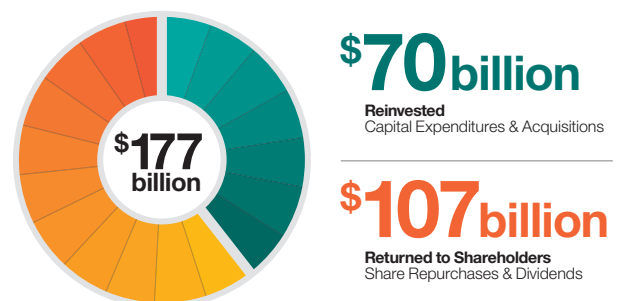
4. We invested in future sources of growth and provided record returns to shareholders...

Since the end of 2000, we invested \$43 billion in capital expenditures and \$27 billion net on acquisitions (116 companies) targeted toward high-value areas.

We returned \$89 billion to our shareholders as share repurchases and increased our dividend each year over the last decade. At the end of 2010 our quarterly dividend per share was five times higher than in 2000.

... while continuing to invest in R&D—nearly \$60 billion since the end of 2000.

Primary Uses of Cash Since the End of 2000



5. Today, we run a business model that delivers long-term value and high performance.

Early in 2007, we established our earnings per share road map to 2010. It provided clarity about our business model, objectives and key factors driving performance. The road map also aligned all IBMers against a set of long-term objectives.

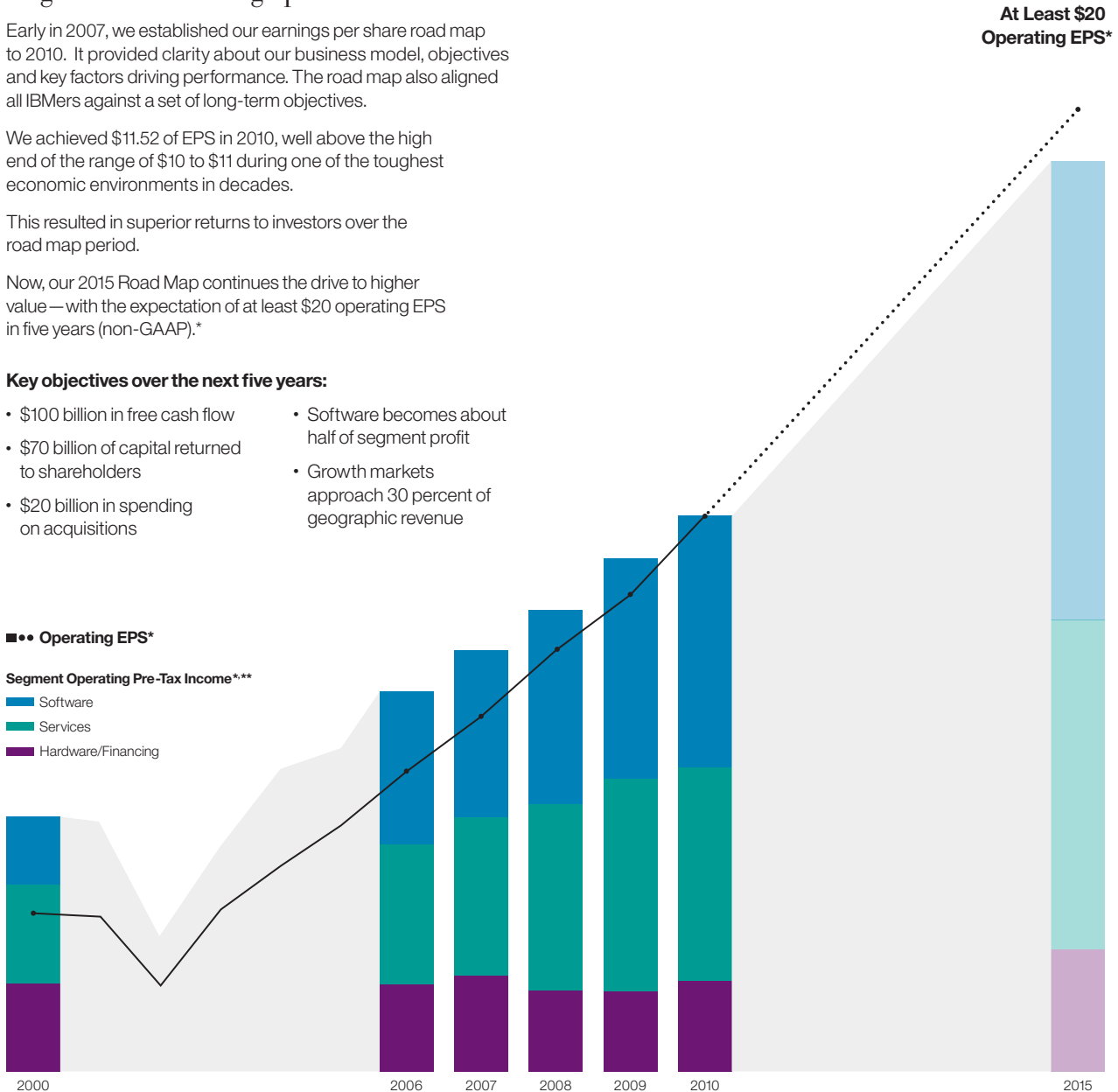
We achieved \$11.52 of EPS in 2010, well above the high end of the range of \$10 to \$11 during one of the toughest economic environments in decades.

This resulted in superior returns to investors over the road map period.

Now, our 2015 Road Map continues the drive to higher value — with the expectation of at least \$20 operating EPS in five years (non-GAAP).*

Key objectives over the next five years:

- \$100 billion in free cash flow
- \$70 billion of capital returned to shareholders
- \$20 billion in spending on acquisitions
- Software becomes about half of segment profit
- Growth markets approach 30 percent of geographic revenue



Key Drivers for 2015 EPS Road Map

*Excludes acquisition-related and nonoperating retirement-related charges.

**2000 and 2001 exclude Enterprise Investments and not restated for stock-based compensation. Sum of external segment pre-tax income not equal to IBM pre-tax income.

Revenue Growth

A combination of base revenue growth, a shift to faster growing businesses and strategic acquisitions.

Operating Leverage

A shift to higher-margin businesses and enterprise productivity derived from global integration and process efficiencies.

Share Repurchase

Leveraging our strong cash generation to return value to shareholders by reducing shares outstanding.

Today our investments are fueling growth initiatives that are expected to drive \$20 billion in incremental revenue by 2015.



Growth Markets

Approaches

30%
of IBM's

geographic revenue by 2015

Opportunity:

The emerging market GDP growth rate—expected to be 5 percent through 2015—is more than double that of major markets.

2015 Road Map Objective:

Growth Markets revenue approaches 30 percent of IBM's geographic revenue by 2015.

A historic economic expansion is underway in the emerging markets of the world—as their populations join the middle class and their economies join the global marketplace. In the largest of these emerging markets, such as China, India and Brazil, IBM is broadening its well-established base of skills and capabilities, nearly doubling our number of branch locations. In less developed markets, such as Africa, we are leveraging anchor clients in sectors like communications and banking. Our recent partnership with Bharti Airtel Africa to provide 21st century wireless telecommunications across 16 countries of Sub-Saharan Africa is one example.



Cloud

\$7 billion

in revenue by 2015

Opportunity:

Cloud is a new, highly efficient model for consuming and delivering IT-based services. It is made possible by virtualizing resources, automating processes and standardizing tasks so they can be offered as easy-to-use services.

2015 Road Map Objective:

Cloud revenue is expected to be \$7 billion by 2015, of which \$3 billion is incremental.

IBM has helped thousands of clients in areas as diverse as banking, healthcare and government build their own clouds or securely tap into IBM cloud-based business and infrastructure services. IBM manages millions of cloud-based transactions every day and provides cloud analytics services to clients like Seton Hall University, Petco, Speedo and Crocs.

ING, a major player in the financial services industry, engaged IBM to design and build a cloud platform that will speed the delivery of new services to millions of clients and employees. Danone is working with IBM to provide a secure cloud trading network for its customers and business partners, while ADP is using IBM's cloud integration software to expand its tax filing offerings to new markets serving employers of all sizes.

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Business Analytics

\$16 billion

in revenue by 2015

Opportunity:

Global data volumes are predicted to increase by 29 times over the next 10 years to 35 zettabytes.* (A zettabyte is a 1 followed by 21 zeros.)

2015 Road Map Objective:

Business analytics revenue is expected to be \$16 billion by 2015.

Enterprises need a way to manage and mine the deluge of potentially valuable information, and the key is advanced data analytics. IBM spotted this emerging need early, building the world's leading analytics practice—with 7,800 expert consultants, the world's premier nonacademic mathematics function and the acquisition of 25 companies, for \$14 billion in gross spending, to deepen our capabilities.

Our scientists have received more than 500 analytics patents. They are expanding technology frontiers through breakthroughs like the powerful new computer named Watson, which competed and won on the television quiz show *Jeopardy!* Applying Watson's use of advanced analytics to decipher natural language, IBM is working to identify better healthcare diagnoses, potential drug interactions and "what if" scenarios in finance and compliance.



Smarter Planet

\$10 billion

in revenue by 2015

Opportunity:

The infusion of digital intelligence into industries, infrastructures, processes and cities can make them more productive, efficient and responsive.

2015 Road Map Objective:

Smarter Planet revenue is expected to be \$10 billion by 2015.

In 2008 and 2009, we articulated a point of view on ways the world can become smarter, and in 2010, we deployed significant resources to capture the opportunity in key, high-growth industries where our experience and solution delivery is strongest. We also expanded our Smarter Cities initiative, targeting local leaders who influence trillions in spending worldwide. In Rio de Janeiro, IBM is developing a system to integrate real-time information and processes across many city departments, including civil defense, transportation and meteorology, for a sustainable operations infrastructure in the face of unprecedented growth.

Similar city infrastructure projects are underway in cities across the world such as Ho Chi Minh City, Shanghai, Seoul, Sydney, Helsinki, Amsterdam, Rotterdam, San Francisco and Washington, D.C.

In our second century, as in our first, IBM's business model is based on continuous forward motion.

Through 100 years of a commitment to innovation and progress ...

Inventing core technologies ...

Through breakthroughs like the FORTRAN programming language in 1957, computer memory in the 1960s, the relational database in the 1970s, reduced instruction set computing (RISC) in the early 1980s, and materials science advances in the 1990s (now in millions of mobile devices), IBM built the foundations for a world of instrumented, interconnected and intelligent systems.

Defining computing architectures ...

From punched card tabulators in the 1920s, to the compatible mainframe System/360 in the 1960s, to the PC in the 1980s, to parallel computing in the 1990s, IBM has shaped the modern IT industry. Today IBM is leading shifts to enterprise cloud computing and building highly optimized systems like Watson able to understand and analyze natural language.

A commitment to research ...

IBM has invested more than \$150 billion in R&D, and has received more than 75,000 U.S. patents. Five IBMers were Nobel Laureates. Today we have 10 global research labs pioneering breakthroughs, advancing technologies and helping define open standards. IBM Research is engaged in long-term collaborations with universities, government agencies and businesses, in fields as varied as nanotechnology, deep analytics and the evolution of the Internet.

• 1911
Net income:
\$800,000

• 1943
Net income:
\$9 million
Revenue:
exceeds \$100 million

1957 •
Net income:
\$110 million
Revenue:
exceeds \$1 billion

1910

1920

1930

1940

1950

1960

For 100 years, IBM has transformed industries and advanced the world's most critical systems.



Automating Rail Systems

1915 Nearly all major U.S. railroads used tabulating technology to automate scheduling and accounting operations, starting with New York Central and Hudson River Railroad.

2010 Helped Russian Railways move 1.3 billion passengers and freight more efficiently.



Modernizing Government

1922 Tabulating technology used to conduct Brazil's first mechanized census.

2010 Helped New York State save nearly \$1 billion preventing tax fraud with advanced analytics.



Automating Aviation Industry Operations

1962 Created the Sabre airline reservation system for American Airlines — a precursor of everything from the ATM to e-commerce.

2010 Helping New Delhi's international airport manage growth in air travel from 28 million passengers today to an expected 150 million passengers in 2020.



Raising Healthcare Standards

1965 Physicians detected changes in temperature, blood pressure and heartbeat with data collected and visualized by an IBM monitoring system.

2010 Stream computing technology and advanced analytics research at the University of Ontario Institute of Technology are used to monitor the health of premature babies at the Hospital for Sick Children, Toronto.

... IBM has changed global business and society, in the process generating strong financial results and superior returns to our owners.

Since 1915, IBM stock has appreciated more than **40,000** times its original value.

Over that same period the Dow Jones Industrial Average has appreciated about **125** times.

One hundred years of driving progress gives us confidence that we can continue to do so—and to deliver superior returns—in our second century.

IBM Share Price*
(Adjusted for stock splits)



Building Smarter Energy and Water Systems

1965 Analyzed ways to increase power output of hydroelectric dams in France.

2009 Helped implement the world's first nationwide smart grid for Malta's energy and water systems.



Reinventing Transportation

1930 IBM receives patent for traffic signal timing system.

2010 Helped speed development of GM's Chevrolet Volt electric vehicle with sophisticated design and simulation software.



Upgrading the Retail Experience

1974 Supermarkets start scanning UPC barcodes, invented by IBM.

2010 Collaborated with Thailand's Ministry of Agriculture and Cooperatives to implement food traceability technologies with farmers, exporters and retailers.



Developing Banking Infrastructure

1997 Created first global settlement system for currency exchange, averaging \$4 trillion a day, with the CLS Group, an industry consortium.

2008 Introduced world's first real-time securities settlement system for Mexico.

*Reflects IBM share price from November 1915 through January 19, 2011, the day after IBM's 2010 earnings announcement. IBM share price from December 1925 to December 2010 was calculated (or derived) based on data from CRSP US Stock Database © 2010. Center for Research in Security Prices (CRSP), The University of Chicago Booth School of Business.

"Generating Higher Value at IBM" includes selected references to certain non-GAAP financial measures that are made to facilitate a comparative view of the company's ongoing operational performance. For information about the company's financial results related to (i) free cash flow excluding Global Financing receivables and (ii) operating (non-GAAP) earnings, which are in each case non-GAAP measures, see the company's Form 8-K submitted to the SEC on January 18, 2011 (Attachment II—Non-GAAP Supplementary Materials).

